

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. SPU-2005-0015 (RPU-2014-0001, TF-2014-0033)
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**ORDER APPROVING SETTLEMENT AND REQUIRING REPORTS**

(Issued September 24, 2014)

**INTRODUCTION AND PROCEDURAL HISTORY**

On January 13, 2014, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) a “Motion for Approval of Corporate Undertaking and Corporate Undertaking.” IPL said the filing was made in compliance with the Board’s January 31, 2013, order in Docket Nos. SPU-2005-0015 and TF-2012-0577, where IPL was directed to file a corporate undertaking by January 13, 2014, in the event IPL files a general rate case proceeding in the first quarter of 2014. IPL said that it was working with the parties to resolve issues related to the new purchase power agreement (PPA) with NextEra Energy Duane Arnold, LLC (NextEra), but that if those issues were not resolved, IPL was committed to removing NextEra PPA capacity costs from base tariff rates in a general rate case to be filed in 2014, with a refund obligation that begins the same day as energy adjustment clause (EAC) cost recovery for the new NextEra PPA charges starts, that is, on February 22, 2014. For

administrative purposes, the filing was identified as Docket No. RPU-2014-0001.

The Board approved the corporate undertaking by order issued February 19, 2014.

On February 14, 2014, IPL filed a request for approval of a proposed rate notification pursuant to 199 IAC 26.5(1)"d"(1), which requires that all nonstandard notices be approved by the Board. IPL said that it was preparing to file an application for increased electric rates pursuant to Iowa Code chapter 476, consistent with the commitments it made in Docket No. SPU-2005-0015. The proposed notice, identified as Docket No. RN-2014-0001, was approved, with some modification, by order issued March 13, 2014. The order also scheduled eight consumer comment hearings throughout IPL's service territory.

IPL did not send the approved rate notice to its customers. On March 25, 2014, IPL, the Consumer Advocate Division of the Department of Justice (Consumer Advocate), the Iowa Consumers Coalition (ICC), and the Large Energy Group (LEG) filed a unanimous settlement agreement and joint motion for approval of agreement. The proposed settlement by all parties to Docket No. SPU-2005-0015 interested in the potential double recovery issue, resolves the potential double recovery of Duane Arnold Energy Center (DAEC) PPA costs raised in that docket.

The proposed settlement also contains, among other things, an electric base rate increase moratorium and provisions for returning certain customer credits to IPL customers. Because no electric base rate increase is being sought, the filing renders the corporate undertaking and proposed rate case notice moot. The proposed settlement is filed to comply with the Board's January 31, 2013, order in Docket No.

SPU-2005-0015; because the parties reached a proposed settlement agreement, no rate case filing is necessary and Docket Nos. RPU-2014-0001 and RN-2014-0001 exist only for administrative purposes. The proposed settlement is a continuation of the primary docket, Docket No. SPU-2005-0015.

On the same day the proposed settlement was filed (March 25, 2014), IPL filed a proposed tariff, identified as Docket No. TF-2014-0033, that contains a new rider and changes to IPL's energy adjustment clause that would implement the customer credits agreed to in the proposed settlement. The tariff changes provide that there will be no increase in IPL's electric base rates.

On April 2, 2014, the Board issued an order docketing the tariff for investigation, requiring additional information, cancelling the consumer comment hearings, and allowing optional implementation of customer credits. The consumer comment hearings scheduled by order issued on March 13, 2014, in Docket No. RN-2014-0001 were cancelled because there is to be no increase in IPL's base rates.

The Board required IPL to file additional information in order for the Board to evaluate the proposed settlement and tariff. Other signatories to the proposed settlement were invited (but not required) to respond to some or all of the information requests. The order also said that if all the parties to the proposed settlement could agree, IPL would be allowed to begin implementation of the customer credits contained in the proposed settlement, subject to true-up, with IPL's May billing cycle. The proposed settlement asked that the credits begin in May.

On April 9, 2014, IPL filed the additional information requested by the Board. On the same date, ICC provided information in response to information request number 5, which dealt with the credit to Standby Customers contained in the proposed settlement.

On April 22, 2014, IPL filed a letter indicating that all parties agreed that IPL could begin implementation of the customer credits with the May 2014 billing cycle, which began on April 28, 2014. IPL said it would maintain accounting records for the subsequent true-up.

On May 19, 2014, the Board issued an order requiring IPL to file additional information, focusing on depreciation, rate base, and return on equity. IPL provided additional information on May 29, 2014.

On July 28, 2014, the Board issued an order requiring IPL to file additional information to provide additional detail regarding its May 29, 2014, filing. IPL provided the additional information on August 8, 2014.

### **SUMMARY OF SETTLEMENT**

The proposed settlement would allow IPL's electric base rate moratorium to continue through 2016, subject to certain exceptions. IPL agreed not to file for an electric base increase prior to January 1, 2017, except in the case of a force majeure situation as provided for in the Board's final decision and order in Docket No. RPU-2010-0001. The other parties to the proposed settlement, Consumer Advocate, ICC, and LEG, agree not to make a filing to reduce IPL's base rates prior to January 1,

2017, unless IPL's return on equity (ROE) exceeds 11 percent; in such an instance, the parties would have the opportunity, but not an obligation, to file a show cause proceeding for a reduction in IPL's base rates. IPL will file annual calculations of its Iowa jurisdiction ROE on or before March 31 of each year.

The proposed settlement provides that IPL's energy adjustment clause (EAC) and regional transmission service (RTS) cost recovery riders will continue. The other parties reserve the right to oppose one or both of these riders in a future rate proceeding. Credits passed on to customers through IPL's tax benefit rider are to continue at least through 2016.

Finally, the proposed settlement requires IPL to provide annual calendar year rate credits to its Iowa electric customers in the following amounts: \$70 million in 2014, \$25 million in 2015, and \$10 million in 2016. Standby customers will receive \$5 million of the annual credits and the remaining credits will be allocated as a credit to IPL's EAC factor pursuant to the customer class allocations contained in the proposed settlement.

The settling parties agree that the proposed settlement satisfies the commitment made by IPL to address the claim of double recovery of DAEC costs raised in Docket No. SPU-2005-0015 and the Board's January 31, 2013, final order in that docket. The parties agree there is no refund due pursuant to the corporate obligation filed by IPL on January 13, 2014, in Docket No. RPU-2014-0001. However, if a rate case is filed prior to 2017 or if the credits are not fully funded, the double recovery issue will not be deemed to be resolved and may be litigated.

## **BOARD DISCUSSION**

Rule 199 IAC 7.18 provides that the Board will not approve a settlement unless it is "reasonable in light of the whole record, consistent with law, and in the public interest." The Board finds that the proposed settlement agreement meets these standards and will approve it.

In the additional information provided by IPL on April 9, 2014, IPL noted several benefits from the proposed settlement. Among these are immediate credits back to customers, stability in base rates, avoidance of rate case expense, incentives for IPL to operate efficiently to meet customer and financial expectations, and provides safeguards to IPL and its customers if equity returns fall outside expected parameters. IPL said that the proposed settlement is a compromise of disputed claims and that unless it is approved in its entirety without condition or modification, it shall be null and void.

The proposed settlement provides for a base rate moratorium through 2016 with a 10 percent ROE for all rate base that is not subject to advance ratemaking principles. IPL said that if it filed a rate case, it would have requested a higher ROE. A 10 percent ROE is within the range of reasonableness of recent cases, which include a 9.9 percent ROE in a water rate case (Docket No. RPU-2013-0002) and a 10 percent ROE contained in an electric rate case settlement (Docket No. RPU-2013-0004).

The capital structure provided by IPL in the additional information reflects 13-month average balances consistent with past Board precedent. Also, the proposed

settlement contains Consumer Advocate's, ICC's, and LEG's agreement not to file a rate proceeding to decrease rates prior to January 1, 2017, unless IPL earns an ROE above 11 percent. The ROE for these purposes is to be calculated in accordance with a methodology agreed to by some parties in a MidAmerican Energy Company settlement, Docket No. RPU-2013-0004. This methodology is reasonable and relatively simple to apply.

The proposed settlement provides for various customer credits from 2014 through 2016, with the credits ending on December 31, 2016. Standby customers will be directly assigned their credits as a fixed monthly amount for each customer in the class as of December 31, 2013. If a standby customer discontinues service, the customer will no longer receive the credit. The credits to standby customers are intended to address concerns regarding transmission charges associated with standby service because those customers are billed based on contracted kW demand levels and not their actual kW demand coincident with IPL's monthly system peak demand. In the context of the entire settlement, the credits to standby customers are reasonable.

The credits to remaining customers are allocated to IPL's customer classes based on the results of IPL's preliminary class cost-of-service study, which used approximately 20 allocation factors. IPL will reconcile any over- or under-credited amounts by customer class. For purposes of the overall settlement, the allocation of the remaining customer credits is reasonable.

IPL provided additional information with respect to its 2014 revenue requirement and projected costs and sales for 2015 and 2016. Among other things, IPL plans significant investment in environmental controls at some of its coal-fired generating plants over the next several years. Based on information provided by IPL, increases in IPL's revenue requirement for the years 2014 through 2016 could have been justified by evidence that IPL would have presented in a rate case. While IPL will increase its total revenue during those years because of new DAEC PPA costs that will flow through the EAC, base rates will remain stable. The funds that will be returned to customers in 2014 (\$70 million), 2015 (\$25 million), and 2016 (\$10 million) could be said to represent costs from the former DAEC contract that would otherwise remain in base rates. While IPL will increase its total revenue during those years because of new DAEC PPA costs that will flow through the EAC, base rates will remain stable and significant amounts will be returned to customers.

The Board had some concerns about the information provided by IPL on May 29, 2014. IPL's explanation for the variance in depreciation numbers was that one model was used for accumulated depreciation in the rate base calculation and the other for depreciation expense in cost-of-service regulation; IPL said neither method was used to derive the settlement credits. Also, the Board had some concerns that IPL could manage its business to earn a return close to 11 percent by such things as postponing some maintenance activities and reducing depreciation expenses. However, these concerns can be monitored by requiring IPL to file reports showing its earned return on equity and identifying year-over-year variances



for each of its Federal Energy Regulatory Commission (FERC) accounts and explaining any significant positive or negative variances that contributed to changes in IPL's equity return. This will enable the Board to monitor IPL's operations and ensure that IPL is not timing expenses or other actions to meet its short-term goals, contrary to IPL's and ratepayers' long-term interests.

The proposed settlement and the additional information provided by IPL, combined with the required reports, demonstrate that the settlement is reasonable, consistent with law, and in the public interest. The parties are commended for addressing and resolving, for purposes of the settlement, the difficult issue of potential double counting raised when the new DAEC PPA was approved. The settlement provides for base rate stability while at the same time returning substantial credits to customers. Also, the settlement provides safeguards for both customers and IPL if IPL's ROE varies significantly from what is expected. Because the environmental controls that IPL plans to install at various coal generating units are a significant future expenditure, the Board will require reports every six months about the status of those projects, including when any installation is complete and in use.

**IT IS THEREFORE ORDERED:**

1. TF-2014-0033 is approved, subject to complaint or investigation.
2. The Settlement Agreement filed by Interstate Power and Light Company, the Consumer Advocate Division of the Department of Justice, the Iowa Consumers Coalition, and the Large Energy Group on March 25, 2014, is approved.

3. IPL shall file a report every year, beginning March 1, 2015, showing its earned return on equity and identifying year-over-year variances in IPL's FERC accounts and providing a detailed explanation for any significant variances that caused variances in equity return.

**UTILITIES BOARD**

/s/ Elizabeth S. Jacobs

/s/ Nick Wagner

ATTEST:

/s/ Joan Conrad  
Executive Secretary

/s/ Sheila K. Tipton

Dated at Des Moines, Iowa, this 24<sup>th</sup> day of September 2014.